

# Direct Price Control in Great Britain<sup>1</sup>

By E. R. Hawkins

**I**N Great Britain, as in this country, the basic cause for rising prices has been the increase in monetary demand relative to the supply of goods available for sale. Consequently, the primary measures for control of prices are those designed to increase commodity supplies and to decrease, through taxation and savings, the amount of purchasing power available for civilian expenditure on goods. As suggested in a previous article, these broad measures may be insufficient because it is difficult to increase supplies after full employment has been attained or to raise taxes and savings commensurate with the enormous increase in purchasing power created by government expenditures for war purposes. Accordingly, the governments of both Great Britain and the United States have engaged in direct control of specific commodities by price orders.

Such direct price control not only supplements fiscal control of the general price level, but also provides "selective" control of individual commodities for specific purposes. Some of these purposes are:

1. To stimulate production of essential goods and discourage production of nonessentials.
2. To maintain price balance between goods.
3. To prevent profiteering on specific items.
4. To permit lower income groups to obtain goods important for civilian health and morale.

## Methods of Direct Price Control

Direct control of prices in Great Britain is decentralized, no single agency having been given over-all price jurisdiction. Rents are controlled by the Ministry of Health, shipping and transport by the respective Ministries of Shipping and of Transport, electricity, gas, water, and fuel by the Board of Trade, certain raw materials by the Ministry of Supply, food by the Ministry of Food, and nonfood consumers' goods by the Board of Trade. The methods of control exercised by these agencies differ greatly.

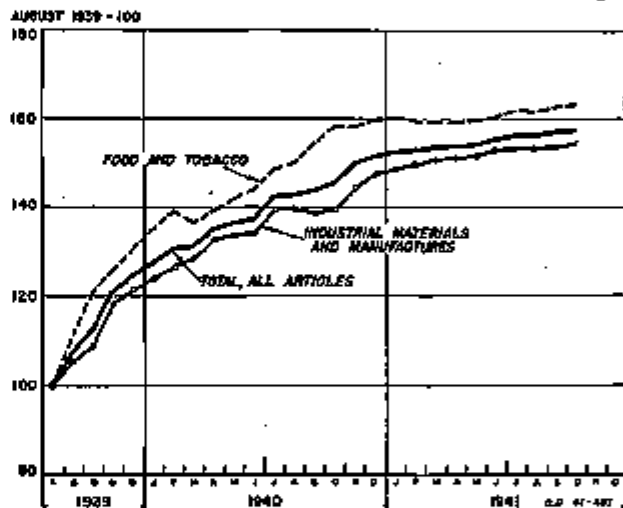
### Raw Materials.

The Ministry of Supply, which was established on July 13, 1939, has the task of controlling the prices and supplies of raw materials, and of providing for the Army's entire needs of munitions, stores, and equipment. Control of prices is based upon the Emergency Powers (Defence) Act of 1939, which was passed a few days before the declaration of war.<sup>2</sup> This act gives the Government broad powers to make any regulations that appear necessary or expedient for the defense of

the realm, the efficient prosecution of the war, or for maintaining supplies and services essential to the life of the community. Regulation 55 of the Defence (General) Regulations of 1939, issued under authority of the Emergency Powers Act, specifically provides that any competent authority may by order provide for controlling the prices at which commodities may be sold.

Within the Ministry of Supply, separate sections were set up for the control of aluminum, alcohol, molasses and solvents, cotton, flax, hemp, iron and steel, jute, leather, nonferrous metals, paper, silk and artificial silks, sulphuric acid, fertilizers, timber, and

Figure 6.—Indexes of Wholesale Prices in the United Kingdom



Source: Indexes were recomputed with August 1939 as base from data published by the Board of Trade, London.

wool. Since the controllers of the various sections act with a great deal of independence, and work closely with the industries which they control, the price orders issued have shown considerable diversity.

In most cases the maximum prices originally established were approximately those prevailing at the time of the price order. Different prices are usually specified for different grades. For example, the Wool Waste (No. 1) Order contains a table showing maximum prices for 35 different grades. Grades not scheduled are priced "in proportion," according to trade custom. Different prices are also established for different quantities, in many cases. For copper, lead, and zinc, additions to the fixed maximum prices are provided for orders of less than 4 tons, and still higher prices for orders of less than one ton. Sometimes the maximum scheduled prices include delivery cost to certain areas (e. g., the West Riding of Yorkshire or Lancashire, for wool), with provision that extra transport costs may be added for delivery elsewhere.

<sup>1</sup> This is the second of two articles on the control of prices in Great Britain. Although it is based on the latest data available, it is, of course, subject to reservations in respect to recent changes. The first article, which appeared in the December issue, was concerned with the over-all fiscal and indirect controls of the general price level.

<sup>2</sup> 2 and 3 Geo. VI, c. 52 (1939).

Sales to the Government may be made at any price agreed upon by the Ministry of Supply and the seller, irrespective of any price order. When the Government becomes the sole buyer, as it has in the case of many important raw materials, no new price schedules are issued. The Government may, however, issue lists of the prices at which it sells.

#### Food.

As the sole importer of food, and the sole buyer and seller at the raw material level, the Ministry of Food has extensive power over food distribution. In addition to setting its own selling prices, the Ministry schedules maximum prices at various levels for a great number of foods, including butter, eggs, tea, cheese, bacon, sausages, meats, lard, fish, potatoes, sugar, pepper, onions, peas, tomatoes, beans, yams, dried fruits, canned fruits, nuts, margarine, coffee, condensed milk, flour, and bread. Individual schedules are issued for each commodity, specifying in most cases both the wholesale and retail prices. Detailed grade and variety classifications are used; for example, the bacon order lists 51 different prices for different varieties of bacon and ham. In some cases specifications are laid down as to authorized sizes and quality. The scheduled prices include normal delivery and service charges; extra services requested by the buyer may be charged for at rates which are sometimes specified in the order and sometimes covered merely by the requirement that they be reasonable. Credit may not be the basis for extra charges; rather, the orders sometimes state that the proscribed prices may be reduced by specified maximum discounts for payment within a certain number of days. This provision applies, of course, only to those cases in which the Ministry sets a proscribed price rather than a maximum price.

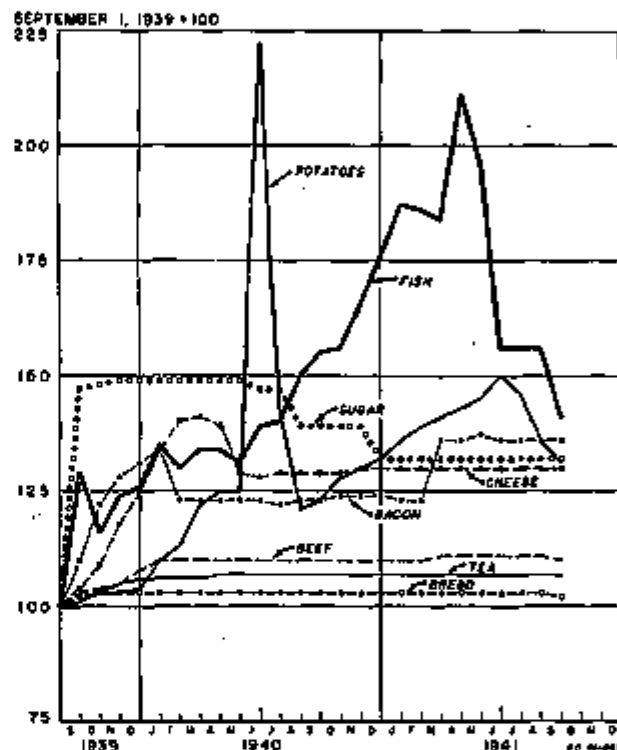
Some geographic price differentials are established. Different prices are scheduled for Northern Ireland than for Great Britain; in some cases, e. g., for meats, the prices are different for Scotland. Sometimes extra charges are permitted for delivery beyond 10 or 25 miles from the seller's establishment. Geographic price differentials for oranges and rabbits were found to be necessary because they did not move any farther from the ports or producing areas than was necessary to sell the entire supply. The country is divided into seven areas for differential retail prices for tomatoes, and the Ministry of Food itself pays the transportation costs for fish, from the ports to inland centers.

The maximum price schedules do not provide for different prices in the various kinds of retail stores. In some cases, however, prices have been frozen as they were in the individual establishment on a certain date. For example, an order effective January 13, 1941, froze prices as of December 2, 1940, on a long list of unrationed foods.<sup>3</sup> Price schedules have subse-

quently been issued for many of the items included in this order.

Control of prices in the vertical channel has not been complete. The Food Price Investigation Committee reports that speculative middlemen have inserted themselves in the channel. Goods change hands many times without leaving the warehouse. In one case cited, canned soup, sold by manufacturers at 6s. 6d. a dozen, went through seven successive middlemen, and was retailed at 14s. 6d. a dozen. Another example is

Figure 7.—Indexes of Prices of Selected Foods, First of Month, in the United Kingdom



Source: Ministry of Labour, London.

canned marmalade, which, imported at 8½d. a tin, retailed at 3s. 6d.<sup>4</sup>

Manufactured food products have not been effectively controlled until recently. "Food-substitute" manufacturers have been able to clear extremely high profits on the sale of such things as "tea stretchers" which are 90 percent bicarbonate of soda, egg substitutes made from flour and soda, ice-cream substitutes which are 96 percent flour, and citric-fruit substitutes made from diluted citric acid. An order issued in October 1941, however, brings the manufacture of food substitutes under license control.

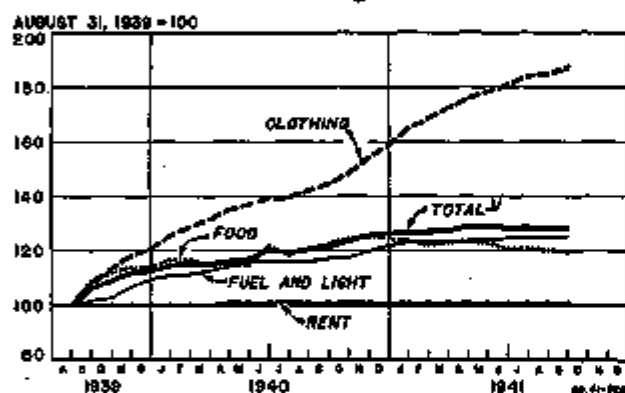
<sup>3</sup> The Food (Current Prices) Order, S. R. and O. (1941) No. 23. The foods included were coffee, coffee essences, cocoa powder, cocoa butter, chocolate, canned and bottled vegetables, canned pork and beans, honey, meat and fish pastes, meat extracts, shredded suet, dead poultry, rice, tapioca and sago, macaroni and spaghetti, biscuits, soups, processed cheese, pickles, sauces and relishes, mustard, jellies, edible nuts.

<sup>4</sup> *The Economist*, May 3, 1941.

There is no one general principle on which food prices are based. The Minister of Food has stated that it is impracticable to lay down any general formula, because of the great diversity of trade and circumstances.<sup>4</sup> Some prices, as noted above, are frozen as of a certain day. In other cases, the Minister of Food arrives at prices and margins by bargaining with the trade interests involved. In this negotiation, cost data supplied by the Director of Costings is used, but only as one consideration. The Committee of Public Accounts reports that, in general, food prices have been set high enough to cover the costs of unfavorably placed traders.<sup>5</sup>

The maximum prices are established with due regard to the prices at which the Ministry sells to the trade, and in many cases the Ministry takes losses on resale in

Figure 8.—Indexes of Cost of Living, End of Month, in the United Kingdom



<sup>1</sup> Includes some items not shown separately on this chart.

Source: Indexes were recomputed with August 31, 1939, as base from data published by the Ministry of Labour, London.

order to permit the distributors to sell at lower prices. It is stated that the Government is spending at the rate of £100 million a year on such subsidies. (Total food sales in 1939 were valued at £1,522 million.) Subsidies have been especially heavy for milk, home-killed meat, and bacon.<sup>7</sup> In some cases, the system of subsidies is used directly to control prices; for example, the Ministry announced in December 1940 that it would pay rebates on flour, equal to 3½d. per quarter loaf, for all bread sold at a price not exceeding 8d. per quarter, with the intent that bread then being sold at 8½d. would be reduced to 8d.<sup>8</sup>

#### Nonfood Items—The Price of Goods Act.

The basic law controlling the prices of nonfood consumers' goods was the Price of Goods Act of 1939, which gave the Board of Trade power to establish the prices charged on August 21, 1939, as basic permitted prices, subject to adjustment for changes in costs. By an order

in December 1939, the act was made applicable to about 140 groups of lower-priced items of clothing and household textiles and utensils, to take effect January 1, 1940. Not all price-ranges were covered, but only goods selling below designated prices.<sup>9</sup>

The list was broadened in June 1940 to cover almost all items of the kind handled by department stores, and many industrial goods, including yarn, thread, rope, twine, leather and leather substitutes, unvulcanized rubber and rubber substitutes, domestic furniture, radios, gramophones, cycles, hardware, cutlery, fabrics of yarn or thread, textile fabrics, domestic ironmongery and turnery, floor coverings, chinaware, glassware, soap, clocks and watches, boots and shoes, clothing, household textiles, toilet preparations, cosmetics, perfumery, drugs, stationery, candles, matches, electric lights, garden implements, hand tools, sandbags, crates, boxes, bags, cartons. In this Order, goods of all price ranges are included.<sup>10</sup>

Although the act conferred power to fix prices at all levels, it was applied chiefly to distributors. A significant feature of this price control is that uniform maximum prices were not set for all sellers, but each seller was required to maintain the prices he charged on August 21, 1939 (plus permitted increases). Hence, the competitive price structure was frozen as of that date, subject to variations for differential changes in cost. The chief problems raised by this type of price control have to do with increases permitted for increases in cost, the relationship of prices at different levels, and the maintenance of uniform resale prices for trade-marked goods.

The Price of Goods Act itself is rather vague on the subject of permitted increases. It says "In this Act the expression 'permitted increase' means, in relation to any price-regulated goods sold . . . in the course of any business, an amount not exceeding such increase as is reasonably justified in view of changes in the business . . ." In an appended schedule, the following matters are listed as ones to be regarded in fixing permitted increases: Cost of raw materials and goods, expenses of manufacturing, cost of maintenance and improvement of plant, and rent, insurance premiums, wages and salaries and reasonable remuneration for services, administration and establishment expenses, pensions, benevolent, and welfare schemes, customs and excise rates, and interest on borrowed money, transport charges, sales promotion, bad debts, and "the total volume of the business over which the overhead expenses thereof fall to be spread."

This language would permit the Board to administer the act by review of the costs of individual firms, or by maintenance of either fixed money margins, or fixed

<sup>4</sup> Select Committee on National Expenditure, House of Commons, Eleventh Report, August 8, 1940.

<sup>5</sup> *The Economist*, August 26, 1941.

<sup>7</sup> Schreyer, Robert B., "Control of Agricultural Prices in the United Kingdom," *Foreign Agriculture*, June 1940, p. 378.

<sup>8</sup> *The Economist*, December 28, 1940.

<sup>9</sup> The Prices of Goods (Price Regulated Goods) (No. 1) Order, 1939, S. R. and O. No. 1918.

<sup>10</sup> The Prices of Goods (Price Regulated Goods) Order, May 10, 1940, S. R. and O. (1940) No. 585.

<sup>11</sup> Price of Goods Act, 1939, 2 and 3 Geo. VI, ch. 118, sec. 4.

percentage margins. At first the Board of Trade adopted the policy of fixing dealers' net profits per unit, in terms of money amounts. The Board permitted increases in price sufficient to cover increased cost of goods and increased operating expenses of the business as a whole, in proportion to the share of the total expense borne by that kind of goods before the war, plus the same money net profit per unit as before the war. However, this meant that when costs were raised the percentage of net profit on each unit was decreased.

It was found to be difficult to enforce this; dealers, in the main, set their prices as before by using their customary percentages of mark-up. Consequently, in July 1940 the Board approved a new formula, as follows:

Permitted price = pre-war base price + increase in cost of goods + pre-war percent of mark-up applied to increases in cost of goods + a further mark-up on the total of the above which was meant to cover any increase in operating cost.

According to this formula, merchants are permitted the same percentage of mark-up as before the war, plus an additional percentage to cover increased expenses of operation. It might appear, then, that profits would be greater, for the same percent of mark-up applied to a higher cost of goods results in a larger absolute money margin, per unit of goods. The total effect, of course, depends upon what happens to the volume of sales, for if fewer units are sold, total money gross margin may be lower in spite of the higher margin per unit.

Taxes and insurance have raised many problems for distributors' pricing. Persons holding stocks are required to pay one-half percent a month, or 6 percent a year, on the value of goods held, as a premium for war-risk insurance, which provides compensation for merchandise damaged by enemy action. In the early days of the war, there was much complaint that manufacturers and wholesalers were passing this cost on to retailers in the form of a 6 percent rise in prices. The President of the Board of Trade pointed out in the House of Commons that such a charge is improper, for on stocks that turn over many times a year, a premium charge of 6 percent a year on the average inventory carried might represent much less than a 6 percent increase in cost.<sup>12</sup> The Multiple Shops Federation, in September 1939 recommended to its members that they should not accept, on any consignment of goods, a surcharge of more than 1½ percent on account of war insurance.<sup>13</sup>

The Purchase Tax of October 21, 1940, imposes a tax of 33½ percent of the wholesale value on many nonessential consumers' goods. This tax is collected at the wholesale level, but is then passed on to retailers. The Central Price Regulation Committee ruled that retailers could add only the amount of the tax to their

prices, thus giving a smaller percentage of mark-up, e. g., 20 percent mark-up would be reduced to 16 percent for an item bearing the full 33½ percent tax. Retailers contended that the higher prices would reduce unit sales, and thus increase expenses per unit. The Committee informed them that if their expense ratios should rise, they could adjust margins according to the formula approved by the Board.

A further problem arose when the tax was imposed, in that retailers had stocks on hand on which the tax had not been paid. The Committee ruled that such stocks should not be raised in price. Retailers pointed out that this would mean that, with new stocks coming in on which the tax had been paid, there would be two prices for the same thing. A solution was found by averaging the taxes over the new stocks and the old stocks.

It has been noted that the Price of Goods Act of 1939 did not give the Board of Trade power to fix prices, but merely to designate which goods the individual seller should not raise in price without proper justification. Section 5 of the act, however, did permit the setting of uniform permitted prices for all sellers, upon application of a body of persons representative of the trade.

The purpose of this provision was to permit resale price maintenance on trade-marked goods, a practice which was prevalent in England long before it was legalized in this country by the passage of "Fair Trade" laws. It may seem odd that in wartime England there should be any necessity for regulations prohibiting price-cutting. Yet as late as the spring of 1941 the trade magazines were still calling upon the Proprietary Articles Trade Association to exercise vigilance in maintaining prices and margins.<sup>14</sup>

**Non-Food Items—The Goods and Services (Price Control) Act of 1941.**

The Price of Goods Act was supplemented in June 1941 by the Goods and Services Act, which gives the Board of Trade power to fix maximum prices or maximum percentage margins of profit for manufacturers, wholesalers, and retailers.<sup>15</sup> Maximum charges may be fixed for performing services in relation to the goods, and provision is made for control of the prices of second-hand goods. Different maximum prices may be set for goods or services sold by businesses of different classes.

Various loopholes of the original act of 1939 are suggested by the modifications in the new act. Thus, section 4 enables the Board to stop the repeated resale at the wholesale stage of goods in short supply, with resulting inflation of price. This was possible under the original act, inasmuch as each seller was permitted to cover his costs of operation, and there was no ceiling on the price the good could ultimately attain through sale and resale. Collusion or reciprocity between firms

<sup>12</sup> *Daily Herald* (London), September 22, 1939.

<sup>13</sup> *London Times*, September 20, 1939.

<sup>14</sup> *The Economist*, March 8, 1941.

<sup>15</sup> 4 and 5 Geo. VI.

would not be necessary in order to give rise to this practice, for anyone who succeeds in getting a supply of scarce goods may insert himself in the channel and resell at enough mark-up to cover his costs, merely because buyers have difficulty in getting enough goods through the shorter, cheaper channel. Accommodation sales between wholesalers and between retailers are permitted provided that no increase in price results.

Provision is also made for prohibiting the payment of commissions for brokers procuring goods controlled by Limitation of Supply orders. These intermediaries bring together wholesalers who have unused quotas and manufacturers or other wholesalers whose quotas are exhausted but who wish to dispose of further goods. The position of genuine agents and commercial travellers will not be affected by this prohibition of commissions.<sup>16</sup>

Other evasions of the original act are suggested by clause 10 of the new one, which prohibits the use of barter transactions and the transfer of goods by mortgages and pledges for the purpose of avoiding the fixed price, and clause 9, which prohibits the sale of price-fixed goods on a condition requiring the purchase of other goods. It is illegal to refuse to sell price-fixed goods, or to deny that the seller has them when he really does have a stock. Uniform prices set by sellers under resale price maintenance contracts, which were permitted under the Price of Goods Act, now become the maximum prices.<sup>17</sup>

The chief distinction in principle between the Price of Goods Act and the Goods and Services Act is that the former froze the prices of each firm at the level of that firm's prices on August 21, 1939 (although permitting increases according to the above formula), while the latter provides for setting maximum scheduled prices or margins, uniform for all sellers in a given class, but making no provision for automatic increases. At first the new act was applied only to certain essential goods; the Price of Goods Act will continue to apply to goods not designated for maximum prices by the Board.

To date, maximum prices and margins have been fixed only for apparel made from marked "utility cloth," which is produced according to specifications, and for laundry service. Maximum prices have been set for men's, boys', and youths' outer garments, women's and maids' outer garments, hosiery, knitted underwear, women's underwear and nightwear, and men's overalls, at the manufacturing, wholesaling, and retailing levels. These scheduled prices are overriding maxima, however, in no case must the firms' mark-ups over cost exceed 33 1/2 percent for retailers, 20 percent for wholesalers, and 4 percent for manufacturers, except that manufacturers are permitted a mark-up (over cost of production and selling) of 7 1/2 percent on most hosiery, or 5 percent on women's seamless hosiery.

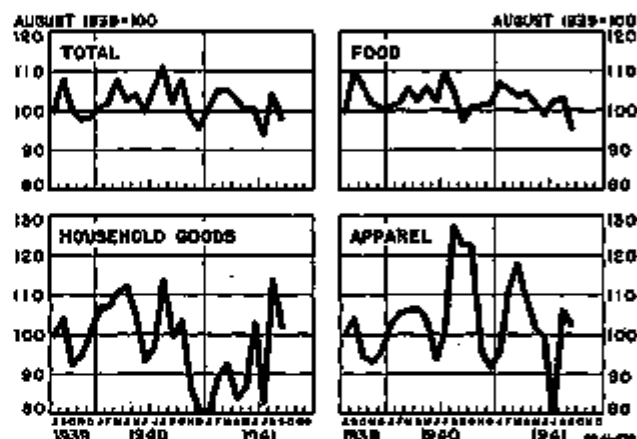
The order affecting laundries was made to prevent Lon-

don laundries from bringing into effect an announced price rise of 1d. in the shilling. In this case the Board of Trade fixed the maximum charges as those obtaining on September 1, 1941. Hotels were warned that similar action would be taken against them if they attempted to raise their rates.

#### Enforcement of Price Control Orders.

Under the Price of Goods Act, violations were reported only by the buyers, who were urged to submit complaints to the local price regulation committees. This form of reporting was found to be insufficient, partly because consumers did not know what the prices

Figure 9.—Indexes of Retail Sales in Great Britain, Adjusted for Seasonal Variations



Source: Indexes were adjusted for seasonal variations and recomputed with August 1939 as base from data published by the Bank of England, London.

should be.<sup>18</sup> Under the new Goods and Services Act, the maximum scheduled prices must be posted in the stores. In addition, a staff of investigators is now in the field checking on prices, especially in cases where consumers would not be able to detect a violation because the price might exceed the permitted percent of margin while not exceeding the scheduled maximum.

The Ministry of Food has since the beginning required that lists of controlled food prices be posted. Moreover, it has had 1,500 control officers in the field, and has been able to secure 27,371 convictions out of 28,941 prosecutions, to August 1941.

#### Appraisal of British Price Control

The effectiveness of price control may be judged by various criteria, relative to the purposes of control. The stability of prices, the trend of profits, and the effects on production and consumption are all considerations that may be involved in appraisal of specific price controls.

British controls have not prevented substantial increases in prices. Figure 6 shows that the wholesale price index rose 57 percent from the outbreak of war to October 1941, while the cost of living (fig. 8) increased 28 percent. About half of this increase occurred in the early months of the war; from August to

<sup>16</sup> "Notes Prepared by the Board of Trade for the Information of the Press."

<sup>17</sup> Goods and Services (Price Control) Act, clause 1, subsec. 2.

<sup>18</sup> The Economist, August 2, 1941.

December 1939, wholesale prices rose 25 percent and the cost of living advanced 12 percent.

During this period only rents were stable, showing no rise in the Ministry of Labour's index. Prices of nonfood items were not controlled at all, for the Price of Goods Act did not go into effect until January 1, 1940. On the other hand, most of the food items included in the cost-of-living index were brought under control early, maximum price orders being issued in September 1939 for flour, meat, tea, sugar, canned salmon, dried fruits, potatoes, eggs, butter, condensed milk, imported lard, oils and fats, and margarine.

Despite this control, food prices increased 30 percent at wholesale and 14 percent at retail. Figure 7 shows that the prices of many of the items were permitted to rise appreciably, even under control. The price orders issued in September permitted increases in 1 month of 47 percent for sugar, 19 percent for eggs, and 12 percent for butter. Bacon, cheese, and fresh fish were not controlled during 1939, although bacon prices increased 81 percent, cheese 25 percent, and fish 26 percent.

During 1940 prices continued to advance, the total wholesale price index rising an additional 19 percent, while the cost of living rose about 11 percent. Food prices rose about 18 percent at wholesale, and 7 percent at retail. In the main, the increases in retail food prices represented changes in the Ministry of Food's official prices, new schedules being issued frequently as supply conditions changed. For example, prices of potatoes were raised in July 1940 to a point 122 percent above the prices of September 1939. Of the items included in the Ministry of Labour's food index, only fish remained uncontrolled, and showed an increase of 75 percent by the end of 1940.

In some cases the permitted increases in prices of controlled foods appear to indicate a use of the pricing mechanism to accomplish rationing of goods in short supply, since many of the price-controlled items were not brought under ration control. To the end of 1940, the prices of unrationed food increased at an average rate of 1½ times that of the prices of rationed foods.<sup>19</sup>

Another reason for the increases in prices of controlled foods appears to be that the Ministry of Food attempted to permit the least favorably situated dealers to cover their costs, even at a reduced volume of sales.<sup>20</sup> Increases due to this cause were aggravated by the fact that according to the Ministry of Food, the number of food retailers has increased greatly since the beginning of the war, as individuals have entered the retail food trade in order to supply their families and friends at wholesale prices.<sup>21</sup>

Despite control of non-food consumers' goods under the Price of Goods Act, retail clothing prices advanced

27 percent during 1940, and an additional 13 percent in the first ten months of 1941. Increases in pre-retail prices were passed along to consumers, and decreases in the physical volume of retail sales were met by increases in price. For example, when shoe supplies were reduced 20 percent, retail shoe prices rose sharply. Retailers could justify the increase on the grounds that overhead expenses per unit of sales were greater at the lower volume.<sup>22</sup> Since maximum price ceilings under the Goods and Services Act were not issued until September 1941, it is too early to appraise the results of this change in control methods.

Despite the continued rise in the prices of nonfood consumers' goods, the general price indexes leveled off in the first 10 months of 1941, as a result of the movement of the food components of the indexes. The total wholesale price index increased only 3 percent, to October, while the cost of living rose a little over 1 percent. During this period, food prices increased about 2 percent at wholesale, and decreased about 3 percent at retail, as supplies of food have increased as a result of Lease-Lend activities, and as control has been tightened. The payment of subsidies, mentioned above, has also been a factor in the decline in food prices, since the Ministry of Food can and does reduce the price indexes by taking a loss on the resale of basic foods.

It must be noted, however, that the Ministry of Labour's cost-of-living index includes only about 20 food items, all of which are now subject to direct price control. Moreover, most of these items are rationed; the unrationed foods which are available are not all price-controlled as yet, and in many cases have risen in price considerably more than the food index. The value of the indexes as measures of change under wartime conditions is limited because of the shifts in relative production and consumption of different goods.

Table 1.—Annual Profits of British Firms Reporting in Various Quarters  
(Thousands of pounds sterling)

Year and quarter	Number of firms	Total profits		Net profits (after debenture interest, depreciation, and taxes)	
		Latest year	Previous year	Latest year	Previous year
1940:					
First.....	553	£125,218	£120,327	£55,186	£52,139
Second.....	722	131,418	118,577	72,155	65,134
Third.....	428	75,734	74,758	37,784	46,323
Fourth.....	558	74,685	85,287	29,627	34,135
1941:					
First.....	439	98,564	94,391	55,628	55,632
Second.....	497	105,305	104,109	51,237	58,810
Third.....	496	80,729	87,480	34,844	43,234

Source: The Economist (London).

#### The Trend in Profits.

The effect of price controls on profits furnishes a test of one of the purposes of control, which is to prevent

<sup>19</sup> Scrimm, T., "Changes in Grocery Sales," Institute of Statistics, Oxford, Bulletin, v. 3, N. 10.

<sup>20</sup> The Economist, August 23, 1941.

<sup>21</sup> The Economist, July 20, 1941.

<sup>22</sup> The Economist, June 7, 1941.



wartime profiteering. British price control has been effective in retarding general inflationary increases in profits, but has not actually reduced profits. Table 1 indicates that British firms (of all types) reported slightly greater total profits for fiscal years ending in each quarter of 1940 and 1941 than for the preceding years, e. g., firms reporting in the third quarter of 1941 showed total profits of £90,729,000 for the fiscal year ended in that quarter, while the profits of these same firms had been £87,480,000 for the year ending in the third quarter of 1940. Firms reporting in the fourth quarter of 1940 showed total profits of £74,685,000 for what was approximately the first year of war as compared with £65,267,000 for the previous year. These figures are for profits before taxes, which is the significant test of the effects of price control. In most cases, of course, increased taxation reduced the net profits available for distribution to stockholders.

Table 2.—Profits of Retail Enterprises, Great Britain

Edas	Number of firms reporting	Total operating profits		Net profits after depreciation, interest, and taxes	
		1940	1939	1940	1939
Department stores.....	7	£5,305,032	£0,342,100	£1,439,000	£1,844,116
Shoe chains.....	7	832,717	813,741	372,238	454,280
Drug chains.....	2	1,125,817	1,082,378	545,418	811,300
Food chains.....	3	1,421,846	1,813,368	841,083	1,097,118
Clothing and drapers.....	8	604,063	744,120	180,801	270,832
Variety chains.....	2	8,390,380	8,504,309	.....	.....
Home furnishings.....	2	318,104	180,847	108,190	50,834
Total, 31 firms.....	31	19,006,000	19,085,479	3,552,400	4,569,186

Source: The Economist (London). Reports of various companies do not exactly coincide with the calendar years.

Profits of various lines of retail trade are shown in table 2, the firms being selected so that the fiscal years covered by their reports approximately coincide with the calendar years shown. Total operating profits of 31 firms were slightly greater in 1940 than in 1939. The maintenance of retail operating profits thus shown is directly related to the operation of the Price of Goods Act, for as physical volume of sales decreased as a result of shortages of supply, merchants were allowed by the Board of Trade's price formula to increase prices sufficiently to maintain the money volume of sales and the aggregate net profits. Figure 9 shows that throughout the war period the value of retail sales has been remarkably constant. In view of the necessary decreases in physical volume, this result could have been achieved only through increases in prices.

During 1941 there has been a slight downward movement in the value of retail sales. Moreover, in the second quarter of this year retail firms reporting their profits showed a decline for the first time since the beginning of the war: £6,507,123 for the year, as compared with £6,736,934 for the year ending in the second quarter of 1940. Imposition of price ceilings under the Goods and Services Act may cause a further decrease in the value of sales and in retail profits.

An offsetting factor may be the new "Location of Retail Businesses Order,"<sup>2</sup> which will restrict the opening of new retail stores. If, in consequence of expected retail mortality, a smaller number of firms results, surviving firms may be able to maintain profit through increases in sales volume. It is possible, also, that even at stable prices the total value of sales may not continue to decline because the reduction in physical volume may have reached its limit.

### Conclusion

Direct price control has become progressively more important in its effect on the general price level in Great Britain. During the period of the greatest rise in prices, in the early months of the war, direct controls were operating only on raw materials and industrial goods, and on a small number of food items. It seems unlikely, however, that the price advance could have been stemmed by a wider or more stringent application of price orders, for the greatest increases took place in raw materials, most of which were imported. Higher import prices were caused by depreciation of the pound sterling, rising world prices, and increases in the cost of shipping and insurance. These factors have been brought under control by stabilization of the exchange rates, requisition of British vessels by the Government, and long-term purchase contracts with the sterling area countries. These contracts and the Lease-Lend Program, have been of extreme importance in respect to stabilization of the price level in Great Britain, in view of the fact that imports are so vital in the British economy.

Increased Government expenditures, particularly after the fall of France, were the basic cause of further substantial price rises in 1940. Increased civilian purchasing power was expended on a volume of consumers' goods that had been reduced through Government control of raw materials and foodstuffs, and the Limitation of Supplies Orders. Fiscal policy was directed at absorbing the increased purchasing power through taxation and savings, but private individuals were left with sufficient income for larger personal expenditures. Direct price controls did not, during 1940, prevent the price increases that resulted from the insufficiency of fiscal controls.

It appears, however, that increased stringency of direct price control and the use of large subsidies have played a significant part in stabilizing the price level in 1941. The leveling-off of the price indexes cannot be entirely attributed to fiscal control, for there is evidence that some inflationary gap may yet remain. Although it is true that there has been voluntary limitation on spending, arising from an increased desire for liquidity and from response to "spend less" campaigns, it seems likely that without direct price controls the present stability of the price indexes would not have been achieved.

<sup>2</sup> The Location of Retail Businesses Order, S. R. and O. (1941) No. 1781.